

Message Text

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ACTION NEA-11

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
EB-08 OMB-01 TRSE-00 COME-00 AID-05 /079 W
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R 211807Z JUN 78
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 0621

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E.O. 11652: N/A
TAGS: EFIN, EINV, EG
SUBJ: PA APPROVES COMMITTEE REVISIONS OF TAX REFORM

REF: CAIRO 14683

1. SUMMARY. IN QUIET MANEUVER LAST WEEK PA REPORTEDLY VOTED APPROVAL OF COMMITTEE RECOMMENDATIONS ON TAX REFORM PACKAGE WHICH PRESIDENT SADAT HAD REFUSED TO APPROVE. MODIFICATIONS TO LEGISLATION CONCENTRATE ON SOME PREVIOUSLY-CITED ITEMS--E.G., TOURISM-- AND AIM AT CURBING LUXURY CONSUMPTION. COMMITTEE REPORT HIGHLIGHTS ARE NOTED BELOW. END SUMMARY.

2. IN CONVERSATION WITH EMBOFF MID-JUNE, DR. OTEIFY, DEPUTY SPEAKER OF PA, CONFIDED THAT LEGISLATURE HAD ESSENTIALLY ACCEPTED ALL OF HIS AD HOC COMMITTEE'S MAJOR RECOMMENDATIONS ON TAX LEGISLATION THEN IN PARLIAMENT (REFTEL) AND HAD VOTED TO FORWARD REVISED PROPOSAL TO PRESIDENT O/A JUNE 18. OTEIFY NOTED THAT HE EXPECTS FINAL PRESIDENTIAL APPROVAL AND PROMULGATION OF REVISED LAW BEFORE END OF MONTH.

3. IN ASIDE TO EMBOFF, OTEIFY NOTED THAT PRESIDENTIAL
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REJECTION OF ORIGINAL TAX BILL HAD COME AS SHOCK, INDICATING WHOLE AFFAIR HAD CAUSED LEGISLATURE MUCH EMBARRASSMENT. AS RESULT, PARLIAMENTARIANS WERE ANXIOUS TO RESPOND TO PRESIDENT ASAP AND RESUME WORK ON OTHER ISSUES REQUIRING ATTENTION BEFORE END OF SESSION JUNE 25. DUE TO THESE FACTORS, ASSEMBLY CHOSE TO ACCEPT COMMITTEE'S FINDINGS AND AMEND BILL QUICKLY IN RESPONSE TO DIRECTIVE FROM

PRESIDENT.

4. UNPUBLISHED COMMITTEE REPORT IN ARABIC, PASSED TO EMBASSY BY OTEIFY, DOES NOT DIFFER SUBSTANTIALLY FROM EARLIER ACCOUNTS IN PRESS (REFTEL) PREFACE TO DOCUMENT SUMARIZES RATIONALE FOR PA REVIEW , I.E. TO ACHIEVE EQUALITY AND SOCIAL JUSTICE." REVISED SECTIONS OF LEGISLATION ELIMINATE TAX HOLIDAY FOR TOURIST ENTERPRISES, INCLUDING NIGHT CLUBS, CASINOS, RESTAURANTS, HOTELS AND FURNISHED FLATS, CANCEL TAX BENEFIT FOR RECONSTRUCTION INVESTMENT; AND IMPOSE NEW SURCHARGE ON FIRMS PRESENTLY EXEMPT FROM GENERAL INCOME TAX AFTER EXPIRATION OF TAX HOLIDAY. NEW PROPOSALS ALSO INCLUDED SECTION BARRING EGYPTIAN CITIZENS FROM TAX EXEMPT STATUS WHEN THEY ARE EMPLOYED BY A CORPORATION THAT HAS BEEN GRANTED A TAX HOLIDAY. (SUCH EMPLOYEES ARE BELIEVED TO HAVE GAINED TAX EXEMPT STATUS PRIOR TO ENACTMENT OF LAW 43.)

5. IN RECOGNITION OF INCREASING NUMBERS OF EXPATRIATES WORKING ABROAD, PA COMMITTEE REPORT RECOMMENDS ESTABLISHMENT OF YEARLY L.E. 50 FEE FOR GRANTING OF WORK PERMITS. DIRECTORS OF COMPANIES WILL BE TAXED ON BENEFITS THEY RECEIVE FROM THE COMPANY IN ADDITION TO SALARY. AN ADDITIONAL 20 PER CENT SURCHARGE WILL BE IMPOSED ON "RECREATIONAL AND LUXURY ACTIVITIES" INCLUDING HOTEL ROOMS, DRINKS AND MEALS. REST HOUSES, FURNISHED FLATS, LIMITED OFFICIAL USE

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ETC., WILL ALSO BE SUBJECT TO 20 PER CENT SURCHARGE. REGISTRATION TAX ON SECOND CARS OF PRIVATE INDIVIDUALS OR FAMILIES WILL BE DOUBLE NORMAL RATE (ASSESSED ON SIZE OF CAR). AIRLINE TICKETS PURCHASED IN LOCAL CURRENCY FOR TRAVEL ABROAD WILL BE SUBJECT TO 20 PER CENT SURCHARGE WITH EXCEPTIONS FOR TRAVEL FOR RELIGIOUS, MEDICAL, EDUCATIONAL, OR OFFICIAL PURPOSES.

6. FOURTH SECTION OF COMMITTEE REPORT ON NEW TAX BILL PROVIDES PENALTIES FOR TAX EVASION INCLUDING FINES AND POSSIBLE JAIL SENTENCE. THIS IN LINE WITH SADAT'S RECENT PUBLIC STATEMENT THAT TAX EVADERS ARE CRIMINALS AND SHOULD BE PUNISHED.

7. COMMENT: REMARKS OF OTEIFY, PLUS COMMITTEE REPORT, CONFIRM INFORMATION IN EARLIER PRESS ACCOUNTS ON DIRECTION OF CHANGES DESIRED BY SADAT TO SERVE SOCIAL JUSTICE. CERTAIN MODIFICATIONS TO BILL PREVIOUSLY PASSED ARE OBVIOUSLY DESIGNED TO HIT AFFLUENT ELITE WHO PATRONIZE CASINOS AND NIGHT CLUBS AND WHO DRIVE EXPENSIVE AUTOMOBILES, AN UNEXCEPTIONABLE AIM IN DOMESTIC POLITICAL TERMS. ADDITIONAL LEVIES ON TOURISTS PROBABLY WOULD NOT

SUBSTANTIALLY DAMPEN CURRENT BOOM IN THAT SECTOR.
POTENTIAL EFFECT OF LATEST PA ACTION ON FOREIGN PRIVATE
INVESTORS IS ANOTHER MATTER, HOWEVER, ASSUMING OTEIFY'S
INFORMATION IS ACCURATE, NEW RULES OF GAME REDUCING
BENEFITS NOW AVAILABLE UNDER LAW 43, ESPECIALLY ADDING TAX
SURCHARGE AFTER HOLIDAY, LIKELY WOULD HAVE CLEARLY ADVERSE
EFFECT ON INVESTMENT CLIMATE.

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8. WE NOTE NEVERTHELESS THAT PA ACTION HAS RECEIVED LITTLE
OR NO PUBLICITY AND THAT BILL IS YET TO BE SIGNED INTO
LAW. FURTHER, IT APPEARS THAT NO CHANGE WAS MADE BY
COMMITTEE IN NEW TAX RATE SCHEDULE PROPOSED IN ORIGINAL
BILL. NEW SCHEDULE, DESIGNED TO ENCOURAGE ENTERPRISE
AND REDUCE INCENTIVE TO UNDER-REPORT INCOME, MIGHT HAVE
BEEN A TARGET FOR SADAT'S DRIVE TOWARD "GREATER EQUITY"
IN TAX ACTION, BUT APPARENTLY WAS NOT. FURTHER COMMENT
WILL FOLLOW WHEN MEASURE IN FINAL FORM AND REACTION THERETO
ARE AVAILABLE. EILTS

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